

IRS FIXES THIRD-PARTY NOTICES, CREATES CLEARER LETTERS FOR TAXPAYERS

WASHINGTON – The Internal Revenue Service on Tuesday unveiled clearer, specialized versions of the letter alerting people that third parties might be contacted as part of the collection or examination process.

Starting this month, the IRS will introduce 15 new, more clearly-worded letters and notices designed for specific situations facing the taxpayer, such as unpaid tax liabilities, unfiled tax returns or unresolved tax issues. These new letters replace a prior notice used in all situations about which tax practitioners and others raised concerns.

The redesigned letters reflect a new process aimed at reducing confusion about third-party notices. The IRS has taken several major steps, including:

Targeting letters and notices to situations where the IRS may make third-party contacts rather than issuing blanket notices to a larger group of taxpayers. Under the new process, the IRS determined only about 8 million taxpayers may be affected. Under the old process, the IRS planned to send letters to about 25 million taxpayers.

Communicating more clearly to taxpayers. Originally, the IRS used just one broadly written letter for all taxpayers. Now, the IRS has specialized the notification by creating 13 letters and two notices tailored for taxpayers facing different situations.

Reinforcing the tax agency's long-standing policy of working first with taxpayers to collect needed information.

"This is a common-sense approach that gets clearly-worded information out to taxpayers without needlessly alarming them," IRS Commissioner Charles O. Rossotti said. "And in the vast majority of cases, we've determined there's no need for a letter at all because we won't be contacting third parties."

In the IRS Restructuring and Reform Act of 1998, Congress required the agency to provide taxpayers reasonable notice before contacting third-parties about the person's tax situation. The contacts are generally used as a last resort to resolve unanswered questions about such things as the assets or address of a taxpayer.

Last year, the IRS started sending out letters notifying taxpayers about the potential third-party contacts. But tax practitioners raised concerns about the letter's wording alarming taxpayers.

The IRS agreed. So the tax agency designed the new notices after receiving feedback and cooperation from tax practitioner groups, the small business community and members of Congress.

The old letter said the IRS "may need to contact third parties. Third party contacts may include, but are not limited to, neighbors, employers, employees and banks."

The new set of 13 letters and two notices (Letters 3164 A – M and Notices 1219A and 1219B) takes a much different approach to inform taxpayers and more clearly reflects the IRS's policy of working with taxpayers first before initiating third-party contacts. Notice 1219B, which will go to people with long-overdue tax bills, is representative of the new language.

"Generally, our practice is to deal directly with a taxpayer or a taxpayer's duly authorized representative," according to the new notice. "However, we sometimes talk with other persons, for example, when we need information that the taxpayer has been unable to provide or to verify information we have received."

"This notice is provided to tell you that we may contact other persons. If we do contact other persons, we will generally need to tell them limited information, such as your name," according to Notice 1219B. "The law prohibits us from disclosing any more information than is necessary to obtain or verify the information we are seeking."

Beyond just drafting the new language, the IRS also had to address other questions involved with administering the third-party guidelines. This included such things as isolating instances where third-party contact was likely, training employees on how to identify and handle third-party situations and resolving questions about how to handle reporting requirements for third-party cases. In many cases, the IRS is required to report third-party contacts to the taxpayers – which in turn raised issues involving the rights of those third parties.

"Balancing the interests of third parties with the rights of taxpayers and the need for efficient tax administration was a delicate task, and we wanted to take the time to get this right," Rossotti said. "We are committed to carrying this out in a way that is fair to all involved."

Rossotti stressed that the IRS's goal remains working to get sensitive information from taxpayers themselves rather than third parties.

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